

# FDIC State Profile

Fall 2005

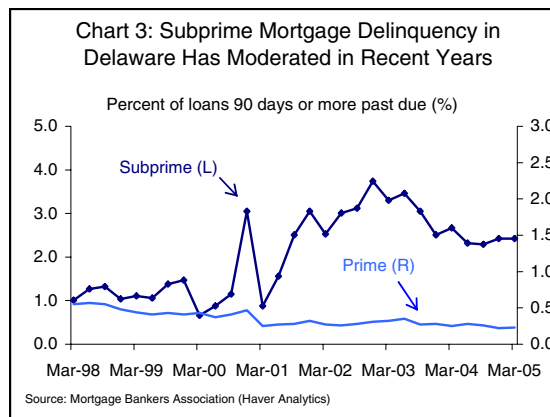
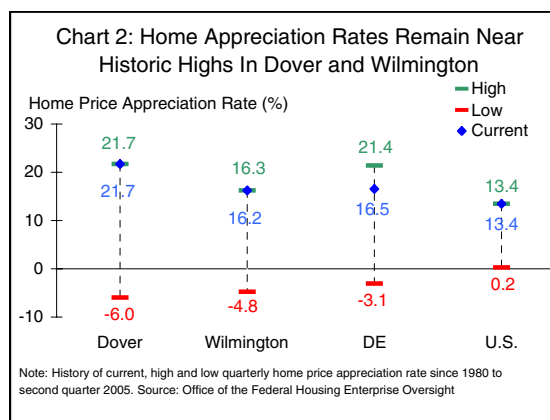
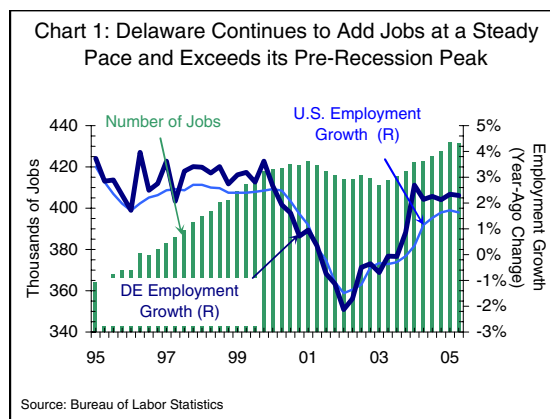
## Delaware

Delaware's job growth continued to outpace the nation.

- After improving steadily since early 2002, Delaware's year-over-year rate of employment growth stabilized during the first half of 2005 and continued to exceed the U.S. average (see Chart 1). The state's second quarter 2005 job growth rate ranked eighth highest in the nation.
- Delaware's business and legal environments have incented companies to incorporate in the state, contributing to above-average job growth. Service sector jobs represented a majority of Delaware's recent job gains, with state and local government a key component of growth. Housing-related employment, including construction and mortgage-related jobs, also has been an important contributor to job growth and represented 13 percent of Delaware's new private sector jobs last year.
- Job growth in the state's financial sector was slightly negative in the second quarter, reflecting industry consolidation. Continued job losses among the state's auto and chemical firms contributed to the contraction in manufacturing jobs.
- The recent hurricanes have contributed to higher gas prices in Delaware and may lead to higher heating bills this winter. After sharply increasing following Katrina, gasoline prices have eased in recent weeks. However, the price per gallon in Delaware remained higher than the national average.<sup>1</sup> In past years, per capita residential consumption of petroleum in the state has been higher than the nation.<sup>2</sup>

**Strong economic fundamentals and population trends bolster Delaware's housing markets.**

- Home price appreciation in **Dover** reached a new high in the second quarter, while **Wilmington's** appreciation rate remained near its historic high (see Chart 2). Employment gains, healthy income growth, and low mortgage rates have contributed to robust housing activity in the state.



<sup>1</sup>American Automobile Association.

<sup>2</sup>Energy Information Administration, U.S. Census Bureau. Energy consumption data through 2001.

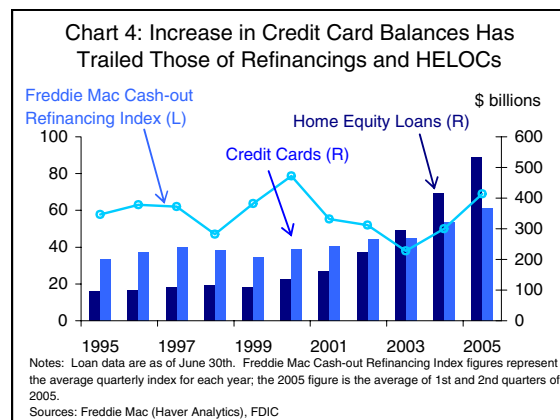
- Lower home prices relative to some neighboring states and a favorable tax climate have contributed to increased demand for vacation and retirement homes in the state, particularly in **Sussex** and **Kent** Counties. According to LoanPerformance data, Delaware ranked among the top five states nationally in the percent of securitized mortgages used to purchase second homes over the past three years.<sup>3</sup>
- Strong housing demand also contributed to increased farmland values in Delaware. Consequently, some of the state's farmers have been selling their land to developers. According to the USDA, in 2005, Delaware's farmland was the fifth most expensive in the lower 48 states and appreciated by 40 percent in the past year, the highest rate in the nation.<sup>4</sup>
- Anecdotal information indicates that the supply of homes for sale in some of Delaware's shore areas has increased, though this may reflect seasonal factors. Permit issuance for new home construction has slowed in Kent and **New Castle** Counties, and some indicators suggest an easing of economic activity.

### Residential loan quality remained strong in Delaware.

- A favorable employment picture has contributed to strong residential loan quality in Delaware. At 0.74 percent, the median past-due residential loan ratio reported by the state's institutions in second quarter 2005 was significantly below the 1.17 percent national ratio.
- After increasing following the 2001 recession, delinquency rates on subprime mortgages in Delaware have stabilized but remained above pre-recession levels (see Chart 3).<sup>5</sup> Nonetheless, higher interest rates and seasoning of mortgage portfolios could result in some weakening of credit quality. Borrowers with marginal finances may be more vulnerable to repayment stress.
- The share of securitized interest-only and option ARM loans (potentially negative amortization loans) originated in the state has increased but remained lower than the national average through the first half of 2005.<sup>6</sup> Should interest rates rise, payments on some of these mortgages could escalate. Moreover, should appreciation rates significantly ease, debt owed on some negative amortization loans could exceed the underlying home value.

### Profitability among the state's institutions increased slightly compared with one year ago.

- Net interest margins (NIMs) increased as loan originations at higher market interest rates outpaced the increase in funding costs. Loan loss provisions remained at low levels reflective of strong credit quality conditions.
- Delaware is home to three of the nation's largest credit card lenders. Combined, these institutions hold almost 30 percent of credit card balances for all FDIC-insured institutions nationwide.
- Since 2003, growth in home equity lending outpaced growth in credit card balances, in part reflecting the effects of the U.S. housing boom (see Chart 4). Strong home-price appreciation during the past several years has enabled homeowners to borrow against increasing home equity in lieu of credit cards. Cash-out mortgage refinancings and home equity products, which have tax-advantages, have been popular alternatives to credit card debt during this housing cycle.
- Credit card loan quality has been stable; however, reports suggest that credit quality could slightly weaken should personal bankruptcy filings increase prior to the October implementation of the new federal bankruptcy law.
- There has been considerable consolidation among U.S. monoline credit card lenders (the group of institutions whose businesses are almost entirely credit card lending). In 2005, some diversified financial institutions announced deals to acquire several large monoline credit card institutions, while other credit card institutions diversified into other lending segments. This trend reflects increasing competition across consumer lending sectors and the need for specialized lenders to diversify their products and funding sources.



<sup>3</sup>LoanPerformance. Second home share of securitized Purchase money Alt-A (low documentation) loans.

<sup>4</sup>Land Values and Cash Rents, 2005 Summary, U.S. Department of Agriculture, National Agricultural Statistics Service, August 2005.

<sup>5</sup>Mortgage Bankers Association (Haver Analytics).

<sup>6</sup>LoanPerformance Corporation. Data represents percentage of securitized Alt-A (low documentation loans) and B/C mortgages.

## Delaware at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.3%	2.3%	2.1%	2.3%	0.0%
Manufacturing (8%)	-4.7%	-1.7%	-1.8%	-2.3%	-3.9%
Other (non-manufacturing) Goods-Producing (6%)	6.7%	8.0%	8.7%	8.1%	0.8%
Private Service-Producing (72%)	2.2%	2.3%	2.5%	2.5%	0.4%
Government (14%)	4.9%	2.7%	-0.1%	1.5%	0.3%
Unemployment Rate (% of labor force)	4.0	4.1	4.1	4.1	4.0

<b>Other Indicators</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	6.2%	6.5%	8.4%	6.7%	4.4%
Single-Family Home Permits	6.8%	-4.8%	5.6%	11.7%	17.7%
Multifamily Building Permits	65.7%	7.5%	824.1%	15.8%	62.9%
Existing Home Sales	2.2%	7.2%	15.0%	19.6%	9.0%
Home Price Index	16.5%	15.3%	12.2%	14.2%	8.6%
Bankruptcy Filings per 1000 people (quarterly annualized level)	4.47	4.31	4.54	4.44	5.03

**BANKING TRENDS**

<b>General Information</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	35	36	34	34	34
Total Assets (in millions)	457,667	443,583	250,034	436,025	216,182
New Institutions (# < 3 years)	3	3	3	2	4
Subchapter S Institutions	1	1	1	1	0

<b>Asset Quality</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.86	1.15	0.72	1.09	1.35
ALLL/Total Loans (median %)	1.27	1.30	1.38	1.31	1.38
ALLL/Noncurrent Loans (median multiple)	3.04	3.09	2.58	3.14	2.79
Net Loan Losses / Total Loans (median %)	0.11	0.07	0.13	0.17	0.32

<b>Capital / Earnings</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	10.98	11.46	9.97	10.23	10.34
Return on Assets (median %)	1.62	1.15	1.69	1.68	2.05
Pretax Return on Assets (median %)	2.56	1.78	2.62	2.52	3.12
Net Interest Margin (median %)	3.99	3.87	3.81	3.90	3.97
Yield on Earning Assets (median %)	5.99	5.57	5.04	5.15	5.67
Cost of Funding Earning Assets (median %)	1.99	1.63	1.21	1.19	1.56
Provisions to Avg. Assets (median %)	0.17	0.13	0.14	0.13	0.15
Noninterest Income to Avg. Assets (median %)	2.35	2.34	1.65	1.57	2.15
Overhead to Avg. Assets (median %)	3.21	3.31	3.27	3.12	3.54

<b>Liquidity / Sensitivity</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	69.8	69.5	64.1	70.7	65.3
Noncore Funding to Assets (median %)	26.7	25.9	33.0	27.5	37.5
Long-term Assets to Assets (median %, call filers)	6.5	9.5	9.9	10.2	11.5
Brokered Deposits (number of institutions)	19	20	18	19	17
Brokered Deposits to Assets (median % for those above)	5.2	4.5	6.5	4.7	7.5

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	29.8	27.6	22.1	30.6	18.1
Commercial Real Estate	33.3	37.6	32.1	75.2	39.7
Construction & Development	1.3	2.0	1.3	2.3	1.3
Multifamily Residential Real Estate	0.0	0.6	1.7	0.7	0.7
Nonresidential Real Estate	21.4	33.3	30.6	51.1	37.7
Residential Real Estate	149.1	165.1	173.2	191.3	182.3
Consumer	22.1	19.3	23.7	23.8	27.9
Agriculture	0.0	0.0	0.0	0.0	0.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	153	181,748	< \$250 million	9 (25.7%)
Dover, DE	10	1,376	\$250 million to \$1 billion	8 (22.9%)
			\$1 billion to \$10 billion	11 (31.4%)
			> \$10 billion	7 (20%)